



GOLDEN JUBILEE
1957 • 2007



CANADA

Spark of Knowledge

KNOWLEDGE DISCOVERY CHALLENGE
ISSUE STATEMENTS



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THE FOLLOWING AKDN PRIORITY AREAS HAVE BEEN IDENTIFIED FOR THE KNOWLEDGE DISCOVERY CHALLENGE:

1. CARING FOR THE AGED - AGING IN A SUPPORTIVE FAMILY ENVIRONMENT
2. ULTRA-POVERTY - TURNING THE TIDE OF POVERTY
3. THE ROLE OF MICROFINANCE IN UNLEASHING OPPORTUNITIES IN DEVELOPING COUNTRIES
4. CLIMATE CHANGE AND THE NEED FOR DEVELOPING SUSTAINABLE ENERGY
5. EMERGENCY PREPAREDNESS - LIMITING THE LOSS OF LIFE AND ASSETS
6. ACCESS TO HEALTH CARE
7. ALTERNATIVE AKDN PRIORITY AREA



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ISSUE CATEGORY #3:

THE ROLE OF MICROFINANCE IN UNLEASHING OPPORTUNITIES IN DEVELOPING COUNTRIES

“The great challenge before us is to address the constraints that exclude people from full participation in the financial sector... Together, we can and must build inclusive financial sectors that help people improve their lives.”

Kofi Annan, Former Secretary General, United Nations.
www.yerofmicrocredit.org, 2005

BACKGROUND

Microfinance is the supply of loans, savings, and other basic financial services to the poor and very poor. The problems the poor face in accessing capital are significant - with little income or collateral, banks are often reluctant to provide loans to the poor. There are two reasons for this: Firstly, having had little exposure to formal banking in the past, most low-income applicants lack a credit history to qualify for loans. Secondly, the amounts borrowed are very modest - often less than \$200 - and therefore do not appeal to local financial institutions. As a result, the poor often turn to informal methods of borrowing money, such as local village moneylenders where the costs of borrowing are significantly higher than bank rates.

PRACTICAL SOLUTIONS

Microfinance institutions like the Aga Khan Agency for Microfinance (AKAM) provide poor people with small amounts of credit at fair and reasonable interest rates. Small-scale borrowing can give poor people a chance to start their own small businesses that provide sustainable incomes for their families and communities. It spurs local economic growth and self-sufficiency.



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Small loans can also be used to secure medication that would otherwise be unattainable, help families recover from emergencies and pay children's school fees at the beginning of the year. Women tend to be the largest recipients of microcredit loans and micro finance services in the developing world. The rate of repayment is high - between 95-98% of all loans are paid back and on time - a higher rate than repayments of credit card debts in North America. Given the opportunity, micro finance clients are excellent credit risks.

In recognition of the significant role micro finance can play in helping to lift people out of poverty, the United Nations declared 2005 the International Year of Microcredit, calling for the building of inclusive financial sectors and strengthening the powerful, but often untapped, entrepreneurial spirit existing in communities around the world.

While the micro finance sector continues to grow, at least 400 million poor and low-income people are not accessing micro finance programs.

MICROFINANCE IN THE FIELD

AKAM works in the world's poorest regions providing financial services to those unable to access conventional credit or other banking services. AKAM's underlying objectives are to reduce poverty, diminish the vulnerability of poor populations and alleviate economic and social exclusion. As of June 2006, AKAM's 167 branches and loan offices in South and Central Asia, the Middle East and Africa had distributed over 183,000 loans totaling over US \$139 million to low-income beneficiaries.

In Mastuj, a remote area in the Chitral district of Pakistan's North West Frontier Province, a young, recently divorced woman with three children feared that she would not be able to make ends meet. In 1998, she applied to the Aga Khan Rural Support Program (AKRSP) for training in sewing. Soon after her course, she took out an AKRSP loan, which included business training, to buy a sewing machine. She then set up a business sewing and selling ready-made clothes. Her small business was a success and she has taken several other loans for machinery and material. Each time she has paid back her loan in full and on time. Her monthly



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income has risen over six-fold from Rs 1000 (US\$16) to Rs. 7000 (US\$120) in four years. As a result, she has been able to send her three children to a private school, extend her one room house and set up a shop near her house. She now has six employees. The true value of the loan calculated based on the returns to her family and the economic growth in the community has far exceeded the initial investment.

Mohamad Maruf is a top student at his local high school in Syria. Despite being accepted at Syria's Open University, Mohamad, the son of a government teacher, could not afford the cost of a higher education. Although Mohamad was willing to work while attending university to support his education, he still could not meet his school expenses. Mohamad's family approached an AKAM loan of cer and with a relatively small loan to cover the cost of books and board (\$540), Mohamad was able to enter university where he plans to become an accountant. Mohamad and his family will pay back the loan over the course of his education. His increased earning potential will assist the economic well-being of his family in the long run.

Although the above-noted examples relate to microcredit (small loans), micro nance includes a host of nancial services such as microinsurance (modest insurance fees to cover exigent circumstances), savings accounts and products for the poor and micro-leasing (funding to purchase xed assets and business equipment). Borrowing can cover both business start-ups and small-business improvement (a new sewing machine or improved fertilizer, for example) and loans to nance health care, education or habitat improvements. The number of potential areas that can be covered under micro nance is large (think of the range of nancial services in your community alone) and the type of diverse bene ciaries.

ISSUE STATEMENT

Identify one speci c region, and one or more speci c bene ciaries that would bene t from micro nance services. Be speci c, clearly identify the need, including why that need is currently not being met or is under-served, and identify a solution - a micro nance product or model that would help lift the identi ed bene ciaries out of poverty and/or provide them with the tools or economic security to improve their livelihoods or way of life.



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